

SHELBY COUNTY
MYRTUE MEMORIAL HOSPITAL
D/B/A MYRTUE MEDICAL CENTER

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2016 AND 2015

MYRTUE MEDICAL CENTER

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MYRTUE MEDICAL CENTER
Officials
June 30, 2016

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Allan Hjelle, Chairperson	Elk Horn, Iowa	2016
Jim Zimmerman, Vice-Chairperson	Harlan, Iowa	2018
Terry Torneten, Secretary/Treasurer	Harlan, Iowa	2018
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Rick Rasmussen	Defiance, Iowa	2020
Larry Miller	Harlan, Iowa	2018
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<u>Chief Executive Officer:</u>		
Barry Jacobsen	Portsmouth, Iowa	
<u>Chief Financial Officer:</u>		
Kristy Hansen	Harlan, Iowa	
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Karen Buman	Harlan, Iowa	

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Myrtue Medical Center
Harlan, Iowa

Report on the Financial Statements

We have audited the accompanying statements of net position of Myrtue Medical Center as of June 30, 2016 and 2015 and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Medical Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees
Myrtue Medical Center

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

The financial statements do not include financial data for the Medical Center's legally separate component unit, Shelby County Medical Corporation. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the Medical Center unless the Medical Center also issues financial statements for the financial reporting entity that include the financial data for its component unit. The Medical Center has not issued such reporting entity financial statements (Note A).

Qualified Opinion

In our opinion, except for the effect of omitting the blended component unit, as discussed in the previous section, the financial statements referred to above present fairly in all material respects, the financial position of Myrtue Medical Center as of June 30, 2016 and 2015 and the changes in its financial position, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Budgetary Comparison Information, and the Schedules of the Medical Center's Proportionate Share of the Net Pension Liability and of Medical Center Contributions (and the related notes) on pages 3 through 3e and on pages 28 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Myrtue Medical Center's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2014 (which are not presented herein) and expressed qualified opinions on those financial statements. The supplementary information on pages 1 and 32 through 38 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Trustees
Myrtue Medical Center

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 19, 2016 on our consideration of Myrtue Medical Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important in considering Myrtue Medical Center's internal control over financial reporting and compliance.

Gronewold, Bell, Kyhne + Co. P.C.
Atlantic, Iowa
September 19, 2016



MYRTUE MEDICAL CENTER Management's Discussion and Analysis

Our discussion and analysis of Myrtue Medical Center's (Medical Center's) financial performance provides an overview of the Medical Center's financial activity for the fiscal years ended June 30, 2016, 2015, and 2014. Please read it in conjunction with the Medical Center's financial statements, which begin on page 4.

FINANCIAL HIGHLIGHTS

The 2016 fiscal year was the tenth full year of Critical Access and hospital-based Rural Health Clinic designation for Myrtue Medical Center.

In 2016 the Medical Center reported a decrease in Operating Income of \$579,597 when compared to the previous year. Approximately \$255,000 of this decrease was caused by the way retirement plan costs are recorded under reporting requirements first implemented in 2015. (See page 3b for more information about the change.) In 2015, the Medical Center reported an increase in Operating Income of \$762,688 compared to the previous year. Approximately \$635,000 of the 2015 increase was caused by the way retirement plan costs were recorded.

Non-operating revenues of \$669,052 represented an approximate \$240,000 decrease from 2015.

THE STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Our analysis of the Medical Center finances begins on page 3a. One of the most important questions asked about the Medical Center's finances is, "Is the Medical Center as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues and Expenses, and Changes in Net Position report information about the Medical Center's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Medical Center's net position and changes to them. You can think of the Medical Center's net position - the difference between assets and liabilities and deferred inflows of resources - as one way to measure the Medical Center's financial health, or financial position. Over time, increases or decreases in the Medical Center's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Medical Center's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Medical Center.

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Shelby, IA 51570
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MYRTUE MEDICAL CENTER
Management's Discussion and Analysis - Continued

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

THE MEDICAL CENTER'S NET POSITION

The Medical Center's net position is the difference between its assets and deferred outflows of resources and liabilities and deferred inflows of resources reported in the Statement of Net Position on page 4.

Table 1: Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

	2016	2015	Not Restated 2014
Assets:			
Current assets	\$ 16,847,340	\$ 17,290,830	\$ 16,006,857
Capital assets, net	34,250,708	35,874,334	37,086,230
Other noncurrent assets	3,721,139	3,524,383	3,363,768
Deferred Outflows of Resources	<u>1,920,149</u>	<u>1,717,962</u>	<u>--</u>
Total assets and deferred outflows of resources	<u>\$ 56,739,336</u>	<u>\$ 58,407,509</u>	<u>\$ 56,456,855</u>
Liabilities:			
Long-term debt outstanding	\$ 7,210,373	\$ 7,967,465	\$ 9,187,328
Other current and noncurrent liabilities	12,965,491	12,899,544	4,599,787
Deferred Inflows of Resources	<u>2,187,147</u>	<u>4,480,529</u>	<u>1,693,333</u>
Total liabilities and deferred inflows of resources	22,363,011	25,347,538	15,480,448
Net Position	<u>34,376,325</u>	<u>33,059,971</u>	<u>40,976,407</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 56,739,336</u>	<u>\$ 58,407,509</u>	<u>\$ 56,456,855</u>

Current assets decreased by \$443,490 from the previous year. Operating cash increased by \$126,408 from the previous year. Net accounts receivable decreased by approximately \$400,900 from the previous year as well. The increase in operating cash is a reflection of the accounts receivable collections, and other program revenue.

Capital assets, net have decreased by \$1,623,626 in the past year due to depreciation expense exceeding equipment additions.

Other noncurrent assets have increased by \$196,756 due to an increase in investments.

MYRTUE MEDICAL CENTER
Management's Discussion and Analysis - Continued

Long term debt has decreased by approximately \$757,100 as a result of repayment of loan principal.

OPERATING RESULTS AND CHANGES IN THE MEDICAL CENTER'S NET POSITION

In 2016, the Medical Center's net position increased by approximately \$1,316,000 or 4.0 percent, as shown in Table 2. Net position increased by approximately \$2,097,000 or 6.8 percent in 2015.

The Government Accounting Standards Board (GASB) required a change in the method of accounting for the Medical Center's pension costs during the 2014-15 and subsequent years. The new accounting method resulted in a significant decrease in net position of \$10,013,369 as of July 1, 2014. The requirements have also resulted in the creation of three new accounts on the statements of net position, which fluctuate significantly each year depending on several factors, which cannot be controlled by the Medical Center. See Note J for details of the pension plan. Although the Medical Center's financial statement reporting has changed significantly, the requirement will have no effect on the Medical Center's actual operations.

Table 2: Operating Results and Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>Not Restated</u> <u>2014</u>
Operating Revenues:			
Net patient service revenue	\$ 36,970,859	\$ 35,957,588	\$ 33,501,576
Other operating revenues	<u>361,389</u>	<u>434,487</u>	<u>352,595</u>
Total operating revenues	37,332,248	36,392,075	33,854,171
Operating Expenses:			
Salaries and benefits	18,858,551	17,878,313	17,669,352
Professional fees	6,475,522	6,088,867	5,655,862
Other operating expenses	9,165,053	8,999,470	7,944,289
Depreciation	<u>2,413,375</u>	<u>2,426,081</u>	<u>2,347,992</u>
Total operating expenses	<u>36,912,501</u>	<u>35,392,731</u>	<u>33,617,495</u>
Operating income	419,747	999,344	236,676
Nonoperating Revenues and Expenses:			
County taxes	896,314	907,649	864,787
Investment income	75,025	64,451	78,414
Noncapital grants and contributions	28,904	289,148	34,380
Other nonoperating revenues and expenses, net	<u>(331,191)</u>	<u>(352,119)</u>	<u>(312,837)</u>
Nonoperating revenues (expenses), net	<u>669,052</u>	<u>909,129</u>	<u>664,744</u>
Excess of Revenues over Expenses			
Before Capital Grants and Contributions	1,088,799	1,908,473	901,420
Grants, Contributions, and Endowments:			
Capital grants and contributions	<u>227,555</u>	<u>188,460</u>	<u>266,468</u>
Increase in Net Position	1,316,354	2,096,933	1,167,888
Net Position Beginning of Year	<u>33,059,971</u>	<u>30,963,038</u>	<u>39,808,519</u>
Net Position End of Year	<u>\$ 34,376,325</u>	<u>\$ 33,059,971</u>	<u>\$ 40,976,407</u>

MYRTUE MEDICAL CENTER
Management's Discussion and Analysis - Continued

OPERATING INCOME

The first component of the overall change in the Medical Center's net position is its operating income, generally the difference between net patient service revenues and the expenses incurred to perform those services. In 2016 the Medical Center had an income from operations of \$419,747, compared to income of \$999,344 in 2015.

The approximate primary components of the operating income are:

An increase in net patient service revenue of \$1,013,000, a 2.8 percent increase, in 2016 compared to an increase of \$2,456,000 or 7.3 percent in net revenue in 2015.

The increase in salary and benefit costs for the Medical Center's employees was \$980,000, a 5.5 percent increase, in 2016 compared to an increase of \$209,000 or 1.2 percent in 2015.

An increase in professional fee costs of \$387,000, a 6.4 percent increase, in 2016 compared to an increase of \$433,000 or 7.7 percent in 2015.

Other operating costs increased by \$166,000, a 1.8 percent increase, in 2016 compared to an increase of \$1,055,000 or 13.3 percent in 2015.

A decrease in provision for depreciation of \$13,000, a .5 percent decrease, in 2016 compared to an increase of \$78,000 or 3.3 percent in 2015.

Overall expenses increased 4.3 percent or \$1,520,000 in 2016 compared to an increase of 5.3 percent or \$1,775,000 in 2015.

The current shortage of professional caregivers and technologists continues to drive up some salary costs. The Medical Center must keep pace with the industry to compete for the highly sought after professionals. The advent of new technology and medicines requires additional capital and operating expense to provide current standard of care for our patients. The Medical Center works closely with its purchasing partner Vizient to purchase medicines and supplies at the most economical rate possible for an organization of our size. The Medical Center provides health insurance to their employees through a self-funded plan. In 2016, claim experience increased significantly from 2015 resulting in a significant increase in health insurance costs to the Medical Center.

The Medical Center routinely provides care for patients who have little or no health insurance or other means of repayment. This service to the community is consistent with the goals established for the Medical Center when it was established in 1954. The level of services provided to these patients increased from \$120,594 in 2015 to \$146,058 in 2016. The Medical Center did see bad debt expense drop off with \$625,000 in 2016 and \$1,290,000 in 2015.

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of property taxes levied by the Medical Center and investment earnings. The property valuation is calculated as of July 1 each year and used as the basis for tax levies on January 1. Variation in the revenue is a result of changing valuations and actual tax collection for the year. The Medical Center's investment income has increased slightly due to a small increase in the market value of stocks.

MYRTUE MEDICAL CENTER
Management's Discussion and Analysis - Continued

CONTRIBUTIONS AND ENDOWMENTS

During the 2007 fiscal year, the Medical Center started a fundraising campaign to build a \$10 million wellness center. The Medical Center obtained pledges of approximately \$7.2 million dollars which includes \$11,400 in donations received during the 2016 fiscal year.

THE MEDICAL CENTER'S CASH FLOWS

The purpose of the statement of cash flows is to show the readers where cash was generated and how it was spent on a cash basis. The 2016 approximate net cash provided by operating activities was \$1,058,000. In 2015, approximate net cash provided by operating activities was \$3,036,000.

Net cash provided by non-capital financing activities was approximately \$831,000. In 2015, the approximate cash provided from this source was \$1,121,000. The majority of this cash flow comes from the Hospital's tax asking and from grants and contributions.

Net cash used in capital and related financing activities in 2016 was approximately \$1,660,000, due to the Medical Center's equipment additions and payments on long-term debt. In 2015, approximate net cash used in capital and related financing activities was \$2,542,000.

Cash flow provided by investing activities was approximately \$64,000 in 2016. In 2015, approximate net cash provided by investing activities was \$2,000.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2016, the Medical Center had \$34.3 million invested in capital assets, net of accumulated depreciation, as detailed in Note G to the financial statements. During 2016, the Medical Center spent \$875,000 on land, equipment and building improvements. In 2015, \$1,233,000 was spent on land, equipment, and building improvements.

Debt:

In 2011, the Medical Center issued \$10,000,000 Capital Revenue Notes to fund Medical Center expansion and renovation project. As of June 30, 2016, \$7,210,373 is outstanding on that note.

The 2011 \$10,000,000 Capital Revenue Notes terms were amended in August, 2013 to take advantage of a lower interest rate.

BUDGETARY HIGHLIGHTS

The official county budget of the Medical Center for the year ended June 30, 2016 was prepared on a modified accrual basis. As indicated on page 28, actual expenditures were 14.3% lower than budgeted due to an unexpected decrease in patient services.

MYRTUE MEDICAL CENTER
Management's Discussion and Analysis – Continued

OTHER ECONOMIC FACTORS

The Medical Center is a rural hospital in west central Iowa. The Medicare program represents about 55% of the revenues the Medical Center receives, and represents the greatest risk to our revenues. Payment changes and revamping of the Program by Congress can have a much larger effect on the Medical Center due to its high percentage of Medicare patients.

The Medical Center has been designated as a Critical Access Hospital (CAH). This designation has resulted in Medicare paying 101% of defined costs for services provided to eligible patients, thereby increasing reimbursement. Effective April 1, 2013 Medicare reimbursement was reduced by 2% under the federal sequestration process.

Effective April 1, 2016, the Iowa Department of Human Services revised its method of paying for services provided to Medicaid patients. This brought an end to Medicaid cost based reimbursement. The effect of this change on the Medical Center cannot currently be determined.

The Medical Center's federally qualified rural health clinics in Harlan, Avoca, Shelby, Elk Horn, and Earling, Iowa also receive cost-based reimbursement from Medicare and Medicaid, which has substantially increased reimbursement to the clinics.

Subsequent to year end, the Medical Center committed to replace its existing information technology system. The estimated cost is approximately \$2,300,000, to be spread over several years.

CONTACTING THE MEDICAL CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Medical Center's finances and to show the Medical Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer, Myrtue Medical Center, 1213 Garfield Avenue, Harlan, Iowa 51537.

* * *

MYRTUE MEDICAL CENTER
Statements of Net Position
June 30,

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash	\$ 5,168,146	\$ 5,041,738
Certificates of deposit	2,302,227	2,301,302
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$2,774,000 in 2016, \$2,638,000 in 2015)	6,570,055	6,970,937
Other receivables	174,950	327,025
Related organization receivable	--	197,854
Estimated third party payor settlements	34,000	--
Inventory	254,030	298,272
Prepaid expense	432,596	359,868
Succeeding year property tax receivable	1,002,000	871,000
Internally designated assets	909,336	922,834
Total current assets	<u>16,847,340</u>	<u>17,290,830</u>
Designated and Restricted Assets:		
Internally designated assets	2,973,949	2,799,613
Restricted assets	1,126,464	1,126,905
	<u>4,100,413</u>	<u>3,926,518</u>
Less amounts required to meet current liabilities	909,336	922,834
	<u>3,191,077</u>	<u>3,003,684</u>
Capital Assets:		
Depreciable capital assets, net	32,265,662	33,933,782
Non-depreciable capital assets	1,985,046	1,940,552
	<u>34,250,708</u>	<u>35,874,334</u>
Other Assets:		
Notes receivable	27,029	25,431
Other	503,033	495,268
	<u>530,062</u>	<u>520,699</u>
Total assets	<u>54,819,187</u>	<u>56,689,547</u>
Deferred Outflows of Resources - Pension	<u>1,920,149</u>	<u>1,717,962</u>
Total assets and deferred outflows of resources	<u>\$ 56,739,336</u>	<u>\$ 58,407,509</u>

The accompanying notes are an integral part of these statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	<u>2016</u>	<u>2015</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 782,908	\$ 757,151
Accounts payable	970,449	1,415,444
Related organization payable	14,620	--
Accrued employee compensation	1,449,376	1,399,045
Payroll taxes withheld and accrued	331,379	336,392
Estimated third-party payor settlements	--	1,635,000
Other current liabilities	126,428	80,520
Total current liabilities	<u>3,675,160</u>	<u>5,623,552</u>
Long-Term Liabilities:		
Long-term debt, less current maturities	6,427,465	7,210,314
Net pension liability	10,073,239	8,033,143
Total long-term liabilities	<u>16,500,704</u>	<u>15,243,457</u>
Total liabilities	20,175,864	20,867,009
Deferred Inflows of Resources	2,187,147	4,480,529
Net Position:		
Invested in capital assets, net of related debt	27,040,335	27,821,706
Restricted expendable	1,126,464	1,126,905
Unrestricted	6,209,526	4,111,360
Total net position	<u>34,376,325</u>	<u>33,059,971</u>
 Total liabilities, deferred inflows of resources, and net position	 <u>\$ 56,739,336</u>	 <u>\$ 58,407,509</u>

MYRTUE MEDICAL CENTER
Statements of Revenues, Expenses and Changes in Net Position
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Revenue:		
Net patient service revenue	\$ 36,970,859	\$ 35,957,588
Other revenue	<u>361,389</u>	<u>434,487</u>
Total revenue	37,332,248	36,392,075
Expenses:		
Salaries and wages	14,709,468	14,580,894
Employee benefits	4,149,083	3,297,419
Professional fees	6,475,522	6,088,867
Supplies and other expenses	9,165,053	8,999,470
Provision for depreciation	<u>2,413,375</u>	<u>2,426,081</u>
Total expenses	<u>36,912,501</u>	<u>35,392,731</u>
Operating Income	419,747	999,344
Non-Operating Revenues (Expenses):		
Investment income	75,025	64,451
Noncapital grants and contributions	28,904	289,148
County taxes	896,314	907,649
Other restricted donations, net	(2,250)	(20,408)
Interest expense	(255,616)	(292,661)
Contracted ambulance service	(94,000)	(75,337)
Gain on disposal of assets	--	15,477
Clinic buildings revenue, net	<u>20,675</u>	<u>20,810</u>
Non-operating revenues, net	<u>669,052</u>	<u>909,129</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,088,799	1,908,473
Capital Grants and Contributions:		
Wellness center	51,005	12,585
Other	<u>176,550</u>	<u>175,875</u>
Increase in Net Position	1,316,354	2,096,933
Net Position Beginning of Year	<u>33,059,971</u>	<u>30,963,038</u>
Net Position End of Year	<u>\$ 34,376,325</u>	<u>\$ 33,059,971</u>

The accompanying notes are an integral part of these statements.

MYRTUE MEDICAL CENTER
Statements of Cash Flows
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 35,648,049	\$ 36,148,929
Cash paid to suppliers	(20,292,525)	(19,085,953)
Cash paid to employees	(14,659,137)	(14,461,686)
Other revenue	<u>361,389</u>	<u>434,487</u>
Net cash provided by operating activities	1,057,776	3,035,777
Cash flows from non-capital financing activities:		
County tax revenue	896,314	907,649
Contracted ambulance service	(94,000)	(75,337)
Noncapital grants and contributions	<u>51,404</u>	<u>289,148</u>
Net cash provided by non-capital financing activities	853,718	1,121,460
Cash flows from capital and related financing activities:		
Capital expenditures	(874,912)	(1,233,454)
Proceeds from disposal of assets	--	15,477
Payments on long-term debt	(757,092)	(1,219,863)
Capital grants and contributions	227,555	188,460
Interest paid	<u>(255,616)</u>	<u>(292,661)</u>
Net cash used in capital and related financing activities	(1,660,065)	(2,542,041)
Cash flows from investing activities:		
Investment income	47,249	33,891
Change in certificates of deposit	(925)	(98,987)
Change in designated and restricted assets	(4,602)	86,458
Clinic buildings revenue, net	20,675	20,810
Change in notes receivable	(13,386)	(13,110)
Change in other assets	<u>(7,765)</u>	<u>(26,603)</u>
Net cash provided by investing activities	41,246	2,459
Net increase in cash and cash equivalents	292,675	1,617,655
Cash and cash equivalents, beginning of year	<u>7,674,397</u>	<u>6,056,742</u>
Cash and cash equivalents, end of year	<u>\$ 7,967,072</u>	<u>\$ 7,674,397</u>

(continued next page)

MYRTUE MEDICAL CENTER
Statements of Cash Flows - Continued
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash in current assets	\$ 5,168,146	\$ 5,041,738
Cash in designated and restricted assets	<u>2,798,926</u>	<u>2,632,659</u>
Total cash and cash equivalents	<u>\$ 7,967,072</u>	<u>\$ 7,674,397</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 419,747	\$ 999,344
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation	2,413,375	2,426,081
Amortization	11,788	5,000
Net book value of asset transferred to another governmental agency	--	38,702
Change in assets and liabilities		
Accounts receivable	552,957	377,052
Related organization receivable	212,474	(131,714)
Inventory	44,242	(22,005)
Prepaid expense	(72,728)	(5,872)
Deferred outflows of resources	(202,187)	(534,350)
Accounts payable, trade	(359,832)	54,279
Accrued employee compensation	50,331	119,208
Estimated third-party payor settlements	(1,669,000)	39,000
Payroll taxes withheld and accrued	(5,013)	46,226
Other current liabilities	45,908	(11,532)
Deferred inflows - other	(206,767)	(263,413)
Net pension liability	2,040,096	(3,163,838)
Deferred inflows of resources - pension	(2,217,615)	3,063,609
Total adjustments	<u>638,029</u>	<u>2,036,433</u>
Net cash provided by operating activities	<u>\$ 1,057,776</u>	<u>\$ 3,035,777</u>

The accompanying notes are an integral part of these statements.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2016 and 2015

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

Myrtue Medical Center (the Medical Center) is a critical access county hospital with related healthcare ancillary, outpatient, and physician clinic services. The Medical Center is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Medical Center has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Medical Center are such that exclusion would cause the Medical Center's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Medical Center's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Medical Center.

The Medical Center has one component unit, Shelby County Medical Corporation (SCMC). SCMC contracts physician services to the Medical Center's physician clinics, and virtually all of its transactions are with the Medical Center. It has limited net position and activity other than between SCMC and the Medical Center. Therefore, combining the component unit would not have a material effect on these financial statements (See Note K).

The following summary shows the net increase or (decrease) blending the component would have on the assets, liabilities, net position, revenues, and expenses of Myrtue Medical Center as of and for the year ended June 30:

	<u>2016</u>	<u>2015</u>
Assets would increase by	<u>\$ 422,235</u>	<u>\$ 522,723</u>
Liabilities would increase by	<u>\$ 350,205</u>	<u>\$ 274,736</u>
Net Position would increase by	<u>\$ 172,030</u>	<u>\$ 247,987</u>
Revenues would increase by	<u>\$ 310,508</u>	<u>\$ 134,415</u>
Expenses would increase by	<u>\$ 386,465</u>	<u>\$ 143,432</u>

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2016 and 2015

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

2. Basis of Presentation

The Statement of Net Position displays the Medical Center's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position in a balance sheet format. Net position is reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position:

- a. *Nonexpendable* - Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Medical Center.
- b. *Expendable* - Expendable net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

When both restricted and unrestricted net position is available for use, generally it is the Medical Center's policy to use restricted net position first.

3. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

4. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2016 and 2015

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

5. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, including designated and restricted assets.

6. Accounts Receivable

Accounts receivable are shown at the amount expected to be collected after determining an allowance for doubtful accounts and for contractual adjustments.

7. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

8. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

9. Designated and Restricted Assets

Internally designated assets consist primarily of funds designated by the Board of Trustees for employee health insurance, capital acquisitions, and related debt payments. The Board retains control over these funds, and may, at its discretion, subsequently use them for other purposes. Restricted assets include donor restricted gifts, and funds whose use is limited by law or contractual agreements.

10. Capital Assets

The Medical Center's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of four years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and five to twenty years for equipment).

11. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Medical Center did not capitalize any interest cost in 2016 or 2015.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2016 and 2015

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

12. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the Medical Center after the measurement date but before the end of the Medical Center's reporting period.

13. Compensated Absences

Medical Center employees earn paid time off (PTO) hours at varying rates depending on years of service. Compensation absence liabilities are computed using the regular pay rates in effect at the balance sheet date. The computed amount of PTO benefits earned by year end is recorded as part of accrued employee compensation.

14. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

15. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the Statement of Net Position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied; the unamortized portion of the net difference between projected and actual earnings on IPERS investments; and deferred insurance proceeds.

16. Statement of Revenues, Expenses and Changes in Net Position

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as non-operating revenues and expenses.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2016 and 2015

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

17. Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

18. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. The succeeding year property tax receivable has been recorded as a current asset and the related property tax revenue has been recorded as a deferred inflow of resources. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

19. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

20. Endowments

Endowments are provided to the Medical Center on a voluntary basis by individuals and private organizations. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds. Currently, the Medical Center has no endowment funds.

21. Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Medical Center does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service (net of discounts for uninsured patients where appropriate) depending on the timing of the charity determination.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2016 and 2015

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute services, inpatient nonacute services, and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Medical Center is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the fiscal intermediaries.

Medicaid - Through March of 2016 the Medicaid payment system was similar to Medicare. In April the State of Iowa Medicaid program switched to a managed care payment system, with payment rates based on previous year cost reports. The Medical Center will continue to file cost reports to determine payment rates for future years.

The Medical Center's Medicare cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2014. The Medicaid cost reports have been audited through June 30, 2013. However, finalized cost reports are subject to re-opening by the intermediaries within three years after the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Medical Center also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

A schedule of patient service revenue and related adjustments for the years ended June 30, 2016 and 2015 follows:

	<u>2016</u>	<u>2015</u>
Gross patient service revenue:		
Inpatient and swing bed services	\$ 10,060,555	\$ 10,254,821
Outpatient	36,344,748	35,145,110
Physician clinic related charges	<u>13,205,075</u>	<u>12,698,342</u>
Total gross patient service revenue	59,610,378	58,098,273
Deductions from gross patient service revenue:		
Medicare	10,975,948	10,809,003
Medicaid	3,471,916	3,106,792
Provision for bad debts	625,406	1,290,113
Charity care	146,058	120,594
Other deductions	<u>7,420,191</u>	<u>6,814,183</u>
Total deductions from gross patient service revenue	<u>22,639,519</u>	<u>22,140,685</u>
Net patient service revenue	<u>\$ 36,970,859</u>	<u>\$ 35,957,588</u>

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2016 and 2015

NOTE C - ENDOWMENTS AND RESTRICTED NET POSITION

Expendable restricted assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Healthcare education loans	\$ 106,408	\$ 108,457
Wellness center scholarships	15,324	15,525
Debt service	<u>1,004,732</u>	<u>1,002,923</u>
	<u>\$ 1,126,464</u>	<u>\$ 1,126,905</u>

The Medical Center has no nonexpendable restricted assets or endowments at June 30, 2016 or 2015.

Following is a summary of the use of temporarily restricted assets during the year ended June 30:

	<u>2016</u>	<u>2015</u>
Purchase of property and equipment	\$ 227,555	\$ 188,460
Education loans forgiven/written off	24,549	20,408
Family planning initiative	--	279,388
Wellness center scholarships granted	<u>201</u>	<u>1,345</u>
	<u>\$ 252,305</u>	<u>\$ 489,601</u>

NOTE D - DEPOSITS AND INVESTMENTS

The Medical Center's deposits at June 30, 2016 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

The Medical Center is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; common stocks; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Medical Center maintains a pool of donated equity securities as a part of their invested funds. At June 30, 2016 the Medical Center held \$463,328 (\$435,552 in 2015) of capital stock, none of which is covered by any form of insurance against loss.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2016 and 2015

NOTE D - DEPOSITS AND INVESTMENTS - Continued

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes. Below is a list of the designed assets and their prescribed purpose:

	<u>2016</u>	<u>2015</u>
Capital acquisitions and related debt	\$ 972,727	\$ 933,551
Employee health insurance	<u>2,001,222</u>	<u>1,866,062</u>
	<u>\$ 2,973,949</u>	<u>\$ 2,799,613</u>

The composition of designated and restricted assets is as follows:

	<u>2016</u>	<u>2015</u>
Internally Designated Assets:		
Cash and cash equivalents	\$ 1,759,520	\$ 1,612,960
Certificates of deposit	750,000	750,000
Equity securities	463,328	435,552
Interest receivable	<u>1,101</u>	<u>1,101</u>
	<u>\$ 2,973,949</u>	<u>\$ 2,799,613</u>
Restricted Assets:		
Cash and cash equivalents	\$ 1,039,406	\$ 1,019,699
Education loans	<u>87,058</u>	<u>107,206</u>
	<u>\$ 1,126,464</u>	<u>\$ 1,126,905</u>

Interest Rate Risk - The Medical Center's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Medical Center.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2016 and 2015

NOTE E - FAIR VALUE MEASUREMENTS

The Medical Center's investments are reported at fair value in the accompanying statements of net position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. The Medical Center uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. Level 1 inputs were available for all investments at June 30, 2016 and 2015. The Medical Center's investments included equity securities valued at \$463,328 (\$435,552 in 2015) at year end.

NOTE F - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2016 and 2015, was as follows:

	<u>2016</u>	<u>2015</u>
Receivable from:		
Patients	\$ 2,492,781	\$ 2,829,239
Medicare	3,087,508	3,369,064
Medicaid	1,428,225	983,895
Wellmark	1,491,864	1,371,145
Other commercial insurance carriers	646,115	932,845
Others	<u>197,562</u>	<u>122,749</u>
	9,344,055	9,608,937
Less allowances for doubtful accounts and contractual adjustments	<u>2,774,000</u>	<u>2,638,000</u>
	<u>\$ 6,570,055</u>	<u>\$ 6,970,937</u>

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2016 and 2015

NOTE G - CAPITAL ASSETS

Medical Center capital assets, additions, disposals and balances for the years ended June 30, 2016 and 2015 were as follows:

<u>Cost</u>	<u>Balance 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2016</u>
Land Improvements	\$ 600,278	\$ 6,737	\$ --	\$ 607,015
Buildings	42,779,864	137,313	--	42,917,177
Fixed Equipment	4,311,908	--	--	4,311,908
Major Movable Equipment	<u>12,725,796</u>	<u>601,205</u>	<u>--</u>	<u>13,327,001</u>
	60,417,846	745,255	--	61,163,101
<u>Depreciation</u>				
Land Improvements	449,058	20,735	--	469,793
Buildings	12,869,528	1,488,062	--	14,357,590
Fixed Equipment	3,671,082	137,878	--	3,808,960
Major Movable Equipment	<u>9,494,396</u>	<u>766,700</u>	<u>--</u>	<u>10,261,096</u>
Total Depreciation	<u>26,484,064</u>	<u>2,413,375</u>	<u>--</u>	<u>28,897,439</u>
Depreciable Capital Assets, Net	<u>\$ 33,933,782</u>	<u>\$(1,668,120)</u>	<u>\$ --</u>	<u>\$ 32,265,662</u>
Non-depreciable Capital Assets:				
Land	\$ 1,819,048	\$ --	\$ --	\$ 1,819,048
Construction in progress	<u>121,504</u>	<u>240,968</u>	<u>196,474</u>	<u>165,998</u>
	<u>\$ 1,940,552</u>	<u>\$ 240,968</u>	<u>\$ 196,474</u>	<u>\$ 1,985,046</u>

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2016 and 2015

NOTE G - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2015</u>
Land Improvements	\$ 516,515	\$ 83,763	\$ --	\$ 600,278
Buildings	42,666,667	113,197	--	42,779,864
Fixed Equipment	4,302,453	9,455	--	4,311,908
Major Movable Equipment	<u>11,681,259</u>	<u>1,091,927</u>	<u>47,390</u>	<u>12,725,796</u>
	59,166,894	1,298,342	47,390	60,417,846
<u>Depreciation</u>				
Land Improvements	432,202	16,856	--	449,058
Buildings	11,386,894	1,482,634	--	12,869,528
Fixed Equipment	3,528,382	142,700	--	3,671,082
Major Movable Equipment	<u>8,719,193</u>	<u>783,891</u>	<u>8,688</u>	<u>9,494,396</u>
Total Depreciation	<u>24,066,671</u>	<u>2,426,081</u>	<u>8,688</u>	<u>26,484,064</u>
Depreciable Capital Assets, Net	<u>\$ 35,100,223</u>	<u>\$ (1,127,739)</u>	<u>\$ 38,702</u>	<u>\$ 33,933,782</u>
Non-depreciable Capital Assets:				
Land	\$ 1,819,048	\$ --	\$ --	\$ 1,819,048
Construction in progress	<u>166,959</u>	<u>382,432</u>	<u>427,887</u>	<u>121,504</u>
	<u>\$ 1,986,007</u>	<u>\$ 382,432</u>	<u>\$ 427,887</u>	<u>\$ 1,940,552</u>

NOTE H - NON-CURRENT LIABILITIES

A schedule of changes in the Medical Center's non-current liabilities for the years ended June 30, 2016 and 2015 follows:

	<u>Balance 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2016</u>	<u>Current Portion</u>
Long-Term Liabilities:					
2011 Capital loan notes	\$ 7,967,465	\$ --	\$ 757,092	\$ 7,210,373	\$ 782,908
Net Pension Liability	<u>8,033,143</u>	<u>2,040,096</u>	<u>--</u>	<u>10,073,239</u>	<u>--</u>
	<u>\$ 16,000,608</u>	<u>\$ 2,040,096</u>	<u>\$ 757,092</u>	<u>\$ 17,283,612</u>	<u>\$ 782,908</u>

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2016 and 2015

NOTE H - NON-CURRENT LIABILITIES - Continued

	<u>Balance 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2015</u>	<u>Current Portion</u>
Long-Term Liabilities:					
2011 Capital loan notes	\$ 9,187,328	\$ --	\$ 1,219,863	\$ 7,967,465	\$ 757,151
Net Pension Liability	<u>--</u>	<u>8,033,143</u>	<u>--</u>	<u>8,033,143</u>	<u>--</u>
	<u>\$ 9,187,320</u>	<u>\$ 8,033,143</u>	<u>\$ 1,219,863</u>	<u>\$ 16,000,608</u>	<u>\$ 757,151</u>

2011 Capital Loan Notes

In December, 2011, the Medical Center issued \$10,000,000 of Hospital Revenue Capital Loan Notes. Combined principal and interest payments were scheduled to be made through May 1, 2025. The Medical Center has made principal payments in addition to the required amounts, resulting in an estimated pay off date in September, 2024. The original interest rate on the outstanding balance of the Notes was 3.85%. As of August 1, 2014 the interest rate was revised to 3.35% with an adjustment on June 1, 2019 based on the seven year Federal Home Loan Bank Des Moines fixed rate advance rate, plus 1.375%. However, the rate will not exceed 6.35% or be below 3.35%.

The Notes are payable only from the revenues of the Medical Center, and are secured by a first lien on its net revenues. The Notes are not general obligations of the county and shall not be paid in any manner by taxation.

Annual Debt Service

The annual debt service on the Notes is expected to require less than 28% of the cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$1,012,700 and \$3,617,400, respectively.

Scheduled principal and interest repayments on long-term debt are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 782,908	\$ 229,597	\$ 1,012,505
2018	809,542	202,963	1,012,505
2019	837,082	175,423	1,012,505
2020	865,559	146,946	1,012,505
2021	895,004	117,501	1,012,505
2022-2025	<u>3,020,278</u>	<u>166,236</u>	<u>3,186,514</u>
	<u>\$ 7,210,373</u>	<u>\$ 1,038,666</u>	<u>\$ 8,249,039</u>

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2016 and 2015

NOTE I - DEFERRED INFLOWS OF RESOURCES

The deferred inflows of resources include insurance proceeds, succeeding year property tax, and pension plan earnings. The insurance proceeds are to be used to repair property that was damaged. The succeeding year property tax represents taxes certified by the County Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Pension earnings represents the net difference between projected and realized earnings on pension plan investments.

	2016	2015
Insurance proceeds	\$ 339,153	\$ 545,920
Succeeding year property tax	1,002,000	871,000
Pension earnings	845,994	3,063,609
	<u>\$ 2,187,147</u>	<u>\$ 4,480,529</u>

NOTE J - PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the Medical Center, except for those covered by another retirement system. Employees of the Medical Center are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary except members with service before June 30, 2012, will use the highest three-year average salary as of that date, if it is greater than the highest five-year average salary.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2016 and 2015

NOTE J - PENSION PLAN - Continued

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of pay and the Medical Center contributed 8.93% for a total rate of 14.88%.

The Medical Center's contributions to IPERS for the year ended June 30, 2016 totaled \$1,275,689.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2016 and 2015

NOTE J - PENSION PLAN - Continued

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the Medical Center reported a liability of \$10,073,239 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Medical Center's proportion of the net pension liability was based on the Medical Center's share of contributions to IPERS, relative to the contributions of all IPERS participating employers. At June 30, 2015, the Medical Center's proportion was 0.2038917%, which was an increase of 0.001337% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Medical Center recognized pension expense of \$895,983. At June 30, 2016, the Medical Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 152,194	\$ --
Changes of assumptions	277,342	--
Net difference between projected and actual earnings on pension plan investments	--	838,358
Changes in proportion and differences between Medical Center contributions and proportionate share of contributions	214,924	7,636
Medical Center contributions subsequent to the measurement date	<u>1,275,689</u>	<u>--</u>
	<u>\$ 1,920,149</u>	<u>\$ 845,994</u>

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2016 and 2015

NOTE J - PENSION PLAN - Continued

The \$1,275,689, reported as deferred outflows of resources related to pensions resulting from the Medical Center contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	
2017	\$(229,561)
2018	(229,561)
2019	(229,561)
2020	470,909
2021	<u>16,240</u>
	<u><u>\$(201,534)</u></u>

There were no non-employer contribution entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00% to 17.00%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2016 and 2015

NOTE J - PENSION PLAN - Continued

The long-term expected rate of return on IPERS investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core Plus Fixed Income	28%	2.04
Domestic Equity	24	6.29
International Equity	16	6.75
Private Equity/Debt	11	11.32
Real Estate	8	3.48
Credit Opportunities	5	3.63
U.S. TIPS	5	1.91
Other Real Assets	2	6.24
Cash	1	(0.71)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and contributions from the Medical Center will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Medical Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Medical Center's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Medical Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Medical Center's proportionate share of the net pension liability	<u>\$ 17,636,430</u>	<u>\$ 10,073,239</u>	<u>\$ 3,689,364</u>

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2016 and 2015

NOTE J - PENSION PLAN - Continued

IPERS' Fiduciary Net Position - Detailed information about the IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan - At June 30, 2016, the Medical Center had remitted all legally required employer contributions and all required employee withholding to IPERS.

NOTE K - RELATED ORGANIZATIONS

Shelby County Medical Corporation

Shelby County Medical Corporation (SCMC) employs the physicians who staff the Medical Center owned Rural Health Clinics. The Medical Center purchases the physician services at a set cost per Relative Value Unit (RVU). SCMC is paid at an interim monthly rate, with a net settlement determined at year end, based on the total RVUs provided. The Medical Center provides limited administrative services to assist SCMC in its operations.

Below, and in the following section is information about transactions between the Medical Center and SCMC:

	<u>2016</u>	<u>2015</u>
Purchase of services from SCMC	\$ <u>3,617,279</u>	\$ <u>3,319,712</u>
Sale of services to SCMC	\$ <u>48,000</u>	\$ <u>48,000</u>
Amount receivable from (due to) SCMC at year end	\$(<u>14,620</u>)	\$ <u>197,854</u>

Health Partners of Southwest Iowa

The Medical Center has joined with two other area hospitals (Cass County Memorial Hospital of Atlantic and Montgomery County Memorial Hospital of Red Oak) to form a 28E organization, Health Partners of Southwest Iowa (HPSI). The organization was formed to share ideas, capital, and resources and to assist in the containment of healthcare costs, while improving the quality of healthcare being delivered in the member hospital service areas. Each of the three members purchase mobile scanning and other medical services from the organization.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2016 and 2015

NOTE K - RELATED ORGANIZATIONS - Continued

Below is a summary of the Medical Center's transactions with HPSI and year end balances involving the 28E organization:

	<u>2016</u>	<u>2015</u>
Services purchased from HPSI	\$ <u>127,020</u>	\$ <u>115,258</u>
Services sold to HPSI	\$ <u>95,748</u>	\$ <u>137,726</u>
Amount due from (to) HPSI	\$(<u>5,233</u>)	\$(<u>2,759</u>)
Member share of net position	\$ <u>498,995</u>	\$ <u>491,230</u>

The member share of net position is included in other assets and the amounts due from (to) HPSI are included in other receivables and accounts payable on the statement of net position. The Medical Center has no ongoing financial interest in or responsibility to HPSI, other than that disclosed above. Financial statements of HPSI will be on file at the Medical Center and the office of the State Auditor.

NOTE L - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: As required by state law, the Medical Center offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Medical Center employees, and the retirees must pay the full cost of the health insurance premium equal to that charged for current employees. There are 227 active employees and 2 retirees covered by the health insurance plan.

Funding Policy: The Medical Center does not set aside funds to pay for any OPEB liability. Any Medical Center costs of an implicit health insurance premium rate subsidy are charged to expense in the year paid.

Net OPEB Obligation: Management of the Medical Center considers any OPEB obligation, which may exist, to be immaterial.

NOTE M - COMMITMENTS AND CONTINGENCIES

Shelby County Ambulance Commission

The Medical Center has committed to participate in the support of the Shelby County Ambulance Commission along with the City of Harlan. The Commission is a private corporation which provides ambulance services to Shelby County and surrounding communities. The Medical Center has agreed to provide financial support totaling \$94,000 in 2016-17.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2016 and 2015

NOTE M - COMMITMENTS AND CONTINGENCIES - Continued

Self Funded Health/Disability Insurance

The Medical Center has established an employee health and disability insurance fund. Under the self-insured plan, the Medical Center pays health claims from this fund up to maximum limits and carries stop loss insurance for health claims in excess of the limits. In addition, the Medical Center pays sixty percent of a disabled employee's salary for up to six months, and carries long-term disability insurance for claims longer than a six month period. At June 30, 2016 and 2015 the Medical Center had accumulated funds in excess of actual claims paid of approximately \$2,001,200 and \$1,866,000, respectively. These funds, shown under designated and restricted assets, are designated by the Board to pay claims as they are filed in the future. An allowance for unpaid claims at June 30, 2016 of approximately \$126,400 (\$80,500 in 2015) is included in current liabilities.

Notes Receivable

The Medical Center has provided financial aid to several medical occupation students enabling them to complete their education. In exchange for the aid, the Medical Center receives promissory notes and the commitment of the students to pursue their medical occupation in the Harlan area for a specified period of time upon graduation from the programs. The promissory notes contain clauses indicating they will be forgiven on a pro rata basis as the commitments are fulfilled. If the students fail to fulfill the commitments, the notes are to be repaid, including interest.

Risk Management

The Medical Center is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Myrtue Medical Center is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during any of the past three fiscal years.

Construction Project

At June 30, 2016, the Medical Center had expended approximately \$166,000 on several minor ongoing projects with an estimated \$100,000 remaining to complete them. Subsequent to year end, the Medical Center committed to replace its existing information technology (IT) system with an estimated cost of approximately \$2,300,000. Funding for the costs will be provided through existing and internally generated funds. The IT project implementation and payments will be over a period of several years.

Subsequent Events

The Medical Center has evaluated all subsequent events through September 19, 2016, the date the financial statements were available to be issued.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

MYRTUE MEDICAL CENTER
Budgetary Comparison Schedule
Year Ended June 30, 2016

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the accrual basis used to prepare the budget. The adjustments result from accounting for interest, ambulance service, gain (loss) on disposal of assets, and net position differently for financial statement and budget purposes.

	Per Financial Statements		
	Unrestricted Fund	Restricted Fund	Total
Amount raised by taxation	\$ 896,314	\$ --	\$ 896,314
Other revenues	37,430,293	251,864	37,682,157
Transfers in (out)	<u>252,305</u>	<u>(252,305)</u>	<u>--</u>
	38,578,912	(441)	38,578,471
Expenses	<u>37,262,117</u>	<u>--</u>	<u>37,262,117</u>
Net	1,316,795	(441)	1,316,354
Balance beginning of year	<u>31,933,066</u>	<u>1,126,905</u>	<u>33,059,971</u>
Balance end of year	<u>\$ 33,249,861</u>	<u>\$ 1,126,464</u>	<u>\$ 34,376,325</u>

	Total Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 896,314	\$ --	\$ 896,314	\$ 870,844
Other revenues	<u>37,682,157</u>	<u>--</u>	<u>37,682,157</u>	<u>43,409,495</u>
	38,578,471	--	38,578,471	44,280,339
Expenses	<u>37,262,117</u>	<u>--</u>	<u>37,262,117</u>	<u>43,500,000</u>
Net	1,316,354	--	1,316,354	780,339
Balance beginning of year	<u>33,059,971</u>	<u>9,013,381</u>	<u>42,073,352</u>	<u>42,073,352</u>
Balance end of year	<u>\$ 34,376,325</u>	<u>\$ 9,013,381</u>	<u>\$ 43,389,706</u>	<u>\$ 42,853,691</u>

See Independent Auditor's Report.

MYRTUE MEDICAL CENTER
Schedule of the Medical Center's Proportionate Share of the Net IPERS Pension Liability
June 30,

	<u>2016</u>	<u>2015</u>
Medical Center's proportion of the net pension liability	.2038917%	.2037580%
Medical Center's proportionate share of the net pension liability	\$ 10,073,000	\$ 8,033,000
Medical Center's covered-employee payroll	\$ 13,982,000	\$ 13,260,000
Medical Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.04%	60.58%
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

Note - GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Medical Center will present information for those years for which information is available. The amounts presented are from the previous IPERS June 30 fiscal year. Amounts reported are rounded.

See accompanying independent auditor's report.

MYRTUE MEDICAL CENTER
Schedule of Medical Center IPERS Pension Contributions
Year Ended June 30,

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 1,275,700	\$ 1,249,000	\$ 1,184,000	\$ 1,111,500
Contributions in relation to the statutorily required contribution	<u>(1,275,700)</u>	<u>(1,249,000)</u>	<u>(1,184,000)</u>	<u>(1,111,500)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Medical Center's covered-employee payroll	\$ 14,285,000	\$ 13,982,000	\$ 13,260,000	\$ 12,820,000
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.67%

Note - Amounts reported are rounded.

See accompanying independent auditor's report.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 1,001,300	\$ 819,000	\$ 729,000	\$ 651,000	\$ 600,000	\$ 519,600
<u>(1,001,300)</u>	<u>(819,000)</u>	<u>(729,000)</u>	<u>(615,000)</u>	<u>(600,000)</u>	<u>(519,600)</u>
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
\$ 12,407,000	\$ 11,798,000	\$ 10,961,000	\$ 10,266,000	\$ 9,921,000	\$ 9,037,000
8.07%	6.94%	6.65%	6.34%	6.05%	5.75%

MYRTUE MEDICAL CENTER
Notes to Required Supplementary Information - Pension Liability
Year Ended June 30, 2016

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

SUPPLEMENTARY INFORMATION

1

MYRTUE MEDICAL CENTER
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2016</u>		<u>2015</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 4,661,106	49.9%	\$ 4,500,679	46.8%
31 - 90	2,039,800	21.8	1,748,951	18.2
91 - 180	1,006,219	10.8	1,052,387	11.0
181 - 365	588,318	6.3	771,052	8.0
Over 365	<u>1,048,612</u>	<u>11.2</u>	<u>1,535,868</u>	<u>16.0</u>
	<u>9,344,055</u>	<u>100.0%</u>	<u>9,608,937</u>	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	855,000		804,000	
Allowance for contractual adjustments	<u>1,919,000</u>		<u>1,834,000</u>	
	<u>\$ 6,570,055</u>		<u>\$ 6,970,937</u>	

Allowance for Doubtful Accounts:

	<u>Year Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
Balance, beginning	\$ 804,000	\$ 990,000
Provision for bad debts	625,406	1,290,113
Recoveries of accounts previously written off	<u>455,851</u>	<u>341,667</u>
	<u>1,885,257</u>	<u>2,621,780</u>
Accounts written off	<u>1,030,257</u>	<u>1,817,780</u>
Balance, ending	<u>\$ 855,000</u>	<u>\$ 804,000</u>

See Independent Auditor's Report.

MYRTUE MEDICAL CENTER
Patient Service Revenue
Year ended June 30,

	2016	
	<u>Inpatient</u>	<u>Swing-Bed</u>
<u>Daily Patient Services</u>		
Medical, surgical and obstetrical	\$ 1,835,237	\$ 437,489
Nursery	135,301	--
	<u>1,970,538</u>	<u>437,489</u>
<u>Other Nursing Services</u>		
Observation beds	21,819	--
Clinic room	--	--
Operating and recovery room	1,014,615	13,494
Delivery and labor room	280,648	--
Emergency service	45,855	277
Medical supplies	667,852	39,929
Intravenous therapy	108,351	19,998
	<u>2,139,140</u>	<u>73,698</u>
<u>Other Professional Services</u>		
Emergency room physicians	--	--
Laboratory	743,515	144,791
Electrocardiology	36,887	3,392
Cardiac rehabilitation	--	--
Radiology	127,425	23,529
CT scanning	299,164	45,634
Nuclear imaging	6,827	2,493
Ultrasound	173,053	16,195
MRI	79,065	20,931
Pharmacy	1,272,355	455,330
Chemotherapy	5,770	14,992
Anesthesia	316,488	3,016
Respiratory therapy	485,341	141,863
Sleep studies	--	--
Physical therapy	268,767	315,394
Occupational therapy	157,495	220,254
Speech therapy	36,772	22,952
Home health	--	--
Hospice	--	--
Family planning	--	--
Public health	--	--
Wellness center	--	--
Occupational health outreach	--	--
Other	--	--
	<u>4,008,924</u>	<u>1,430,766</u>

(continued next page)

2016			2015
Outpatient	Physician Services	Total	Total
\$ 560,775	\$ --	\$ 2,833,501	\$ 3,090,174
6,053	--	141,354	165,040
566,828	--	2,974,855	3,255,214
566,569	--	588,388	507,228
282,033	--	282,033	330,759
4,859,839	--	5,887,948	5,024,450
64,070	--	344,718	434,722
2,008,844	--	2,054,976	2,074,807
710,838	6,686	1,425,305	1,223,504
1,239	--	129,588	136,403
8,493,432	6,686	10,712,956	9,731,873
--	1,048,413	1,048,413	1,064,289
3,858,108	4,072,551	8,818,965	8,321,060
449,165	--	489,444	437,759
221,803	--	221,803	157,724
1,817,483	769,822	2,738,259	2,503,203
3,357,434	--	3,702,232	3,750,443
256,054	--	265,374	230,121
1,495,988	--	1,685,236	1,710,982
1,213,626	--	1,313,622	1,415,867
2,847,976	597,412	5,173,073	5,069,579
2,381,114	28	2,401,904	2,126,030
898,470	--	1,217,974	1,036,926
216,582	--	843,786	991,025
443,171	--	443,171	491,346
2,718,205	--	3,302,366	3,309,114
414,462	--	792,211	699,613
180,762	--	240,486	206,695
943,907	--	943,907	943,314
518,239	--	518,239	1,051,511
19,818	--	19,818	110,004
382,812	--	382,812	392,256
639,817	--	639,817	647,198
210,813	--	210,813	227,111
904	--	904	950
25,486,713	6,488,226	37,414,629	36,894,120

MYRTUE MEDICAL CENTER
Patient Service Revenue - Continued
Year ended June 30,

	2016	
	<u>Inpatient</u>	<u>Swing-Bed</u>
<u>Behavioral Health</u>	\$ --	\$ --
<u>Physician Clinic Services</u>		
Harlan	--	--
Avoca	--	--
Elk Horn	--	--
Shelby	--	--
Earling	--	--
	<u>--</u>	<u>--</u>
Total All Services	<u>\$ 8,118,602</u>	<u>\$ 1,941,953</u>

See Independent Auditor's Report.

<u>2016</u>			<u>2015</u>
<u>Outpatient</u>	<u>Physician Services</u>	<u>Total</u>	<u>Total</u>
\$ 1,797,775	\$ --	\$ 1,797,775	\$ 1,574,442
--	5,453,463	5,453,463	5,309,071
--	336,942	336,942	380,823
--	306,342	306,342	319,090
--	363,007	363,007	373,386
--	250,409	250,409	260,254
--	6,710,163	6,710,163	6,642,624
<u>\$ 36,344,748</u>	<u>\$ 13,205,075</u>	<u>\$ 59,610,378</u>	<u>\$ 58,098,273</u>

MYRTUE MEDICAL CENTER
Revenue and Related Adjustments
Year ended June 30,

	<u>2016</u>	<u>2015</u>
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 59,610,378	\$ 58,098,273
Contractual adjustment	(21,746,727)	(20,524,050)
Provision for bad debts	(625,406)	(1,290,113)
Charity Care	(146,058)	(120,594)
Administrative adjustments	<u>(121,328)</u>	<u>(205,928)</u>
	<u>\$ 36,970,859</u>	<u>\$ 35,957,588</u>
 <u>Other Revenue</u>		
Cafeteria	\$ 114,600	\$ 112,633
Other dietary services	44,173	50,154
Rental income	120,666	113,211
Other	<u>81,950</u>	<u>158,489</u>
	<u>\$ 361,389</u>	<u>\$ 434,487</u>

See Independent Auditor's Report.

MYRTUE MEDICAL CENTER
Schedule of Expenses
Year ended June 30,

	2016		
	<u>Salaries and Wages</u>	<u>Employee Benefits</u>	<u>Supplies and Other Expenses</u>
<u>Daily Patient Services</u>			
Nursing service	\$ 2,716,914	\$ 793,246	\$ 187,782
<u>Other Nursing Services</u>			
Clinic room	420,263	119,514	24,250
Operating and recovery room	594,065	150,617	272,235
Delivery and labor room	250,714	49,867	22,611
Emergency service	367,529	97,132	23,993
Medical supplies	111,393	30,429	572,943
Intravenous therapy	--	--	83,552
Total other nursing services	<u>1,743,964</u>	<u>447,559</u>	<u>999,584</u>
<u>Other Professional Services</u>			
Emergency room physicians	51,209	--	--
Laboratory	653,177	198,366	652,109
Electrocardiology	22,448	8,955	13,047
Cardiac rehabilitation	48,807	11,163	2,738
Radiology	526,694	145,508	385,561
CT scanning	--	--	123,693
Nuclear imaging	--	--	64,658
MRI	--	--	141,079
Pharmacy	330,599	80,899	1,535,123
Chemotherapy	37,807	5,721	1,088,543
Anesthesia	479,889	84,402	55,568
Respiratory therapy	201,323	52,601	56,230
Sleep studies	--	--	116,549
Physical therapy	26,490	3,348	94,182
Occupational therapy	--	--	--
Speech therapy	--	--	725
Home health	464,706	124,935	34,491
Public health	284,563	64,983	128,137
Hospice	300,253	91,686	68,435
Family planning	12,213	1,290	98
Occupational health outreach	89,161	31,969	17,810
Wellness center	395,504	131,359	239,797
Medical records	<u>357,854</u>	<u>130,421</u>	<u>200,404</u>
Total other professional services	<u>4,282,697</u>	<u>1,167,606</u>	<u>5,018,977</u>

(continued next page)

2016			2015
Professional Fees	Depreciation Expense	Total Expenses	Total Expenses
\$ 20,058	\$ 128,711	\$ 3,846,711	\$ 3,724,583
66,936	19,176	650,139	640,357
942,426	103,401	2,062,744	1,441,299
--	26,003	349,195	366,822
--	20,335	508,989	455,179
--	950	715,715	721,522
--	--	83,552	81,113
<u>1,009,362</u>	<u>169,865</u>	<u>4,370,334</u>	<u>3,706,292</u>
573,441	--	624,650	594,182
240,546	47,933	1,792,131	1,742,735
--	--	44,450	38,693
--	5,630	68,338	62,059
--	122,997	1,180,760	1,196,380
--	--	123,693	121,348
--	--	64,658	38,428
--	--	141,079	151,161
--	2,457	1,949,078	1,830,262
--	1,348	1,133,419	917,528
124,501	--	744,360	598,822
--	4,725	314,879	290,256
--	647	117,196	133,732
1,100,537	21,645	1,246,202	1,226,480
250,054	--	250,054	222,615
131,062	--	131,787	121,127
115,744	37,587	777,463	777,485
--	16,695	494,378	465,908
--	27,575	487,949	580,633
900	--	14,501	170,900
7,532	--	146,472	133,161
--	29,818	796,478	871,251
--	787	689,466	656,090
<u>2,544,317</u>	<u>319,844</u>	<u>13,333,441</u>	<u>12,941,236</u>

MYRTUE MEDICAL CENTER
Schedule of Expenses - continued
Year ended June 30,

	2016		
	<u>Salaries and Wages</u>	<u>Employee Benefits</u>	<u>Supplies and Other Expenses</u>
<u>Behavioral Health</u>	\$ 565,020	\$ 145,086	\$ 113,862
<u>Physician Clinic Services</u>			
Harlan	2,399,356	557,953	727,106
Avoca	208,065	38,398	51,509
Elk Horn	210,553	51,347	46,591
Shelby	213,096	43,735	45,987
Earling	158,676	53,955	37,139
Total physician clinic services	<u>3,189,746</u>	<u>745,388</u>	<u>908,332</u>
<u>General Services</u>			
Dietary	455,154	141,017	277,818
Plant engineering	199,163	98,236	576,704
Housekeeping	241,025	112,953	78,869
Laundry and linen	25,955	9,990	93,540
Total general services	<u>921,297</u>	<u>362,196</u>	<u>1,026,931</u>
<u>Fiscal and Administrative</u>	1,289,830	488,002	909,585
<u>General Depreciation</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total all departments	<u>\$ 14,709,468</u>	<u>\$ 4,149,083</u>	<u>\$ 9,165,053</u>

See Independent Auditor's Report.

<u>2016</u>			<u>2015</u>
<u>Professional Fees</u>	<u>Depreciation Expense</u>	<u>Total Expenses</u>	<u>Total Expenses</u>
\$ --	\$ --	\$ 823,968	\$ 787,772
2,264,144	4,506	5,953,065	5,782,060
63,700	942	362,614	351,128
37,540	--	346,031	323,892
37,200	1,803	341,821	325,351
18,600	--	268,370	256,358
<u>2,421,184</u>	<u>7,251</u>	<u>7,271,901</u>	<u>7,038,789</u>
--	1,371	875,360	910,052
--	8,160	882,263	864,544
--	--	432,847	428,858
<u>--</u>	<u>--</u>	<u>129,485</u>	<u>146,300</u>
--	9,531	2,319,955	2,349,754
480,601	131,499	3,299,517	3,202,689
<u>--</u>	<u>1,646,674</u>	<u>1,646,674</u>	<u>1,641,616</u>
<u>\$ 6,475,522</u>	<u>\$ 2,413,375</u>	<u>\$ 36,912,501</u>	<u>\$ 35,392,731</u>

MYRTUE MEDICAL CENTER
Comparative Statistics
Year ended June 30,

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Acute Care:					
Admissions	765	820	797	748	732
Discharges	768	823	797	747	732
Patient days	2,533	2,883	2,513	2,399	2,458
Average length of stay	3.3	3.5	3.2	3.2	3.4
Average occupied beds	6.9	7.9	6.9	6.6	6.7
Swing Bed:					
Admissions	186	233	252	216	229
Discharges	194	226	247	218	229
Patient days	1,391	2,080	2,073	1,858	1,815
Combined Average Occupied Beds	10.7	13.6	12.6	11.6	11.7
Nursery Days	191	249	222	201	230
Outpatient Visits	33,876	33,965	32,810	30,788	32,610
Physician Clinic Visits	38,817	40,035	39,305	40,487	38,122

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
Myrtue Medical Center
Harlan, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Myrtue Medical Center, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Myrtue Medical Center's basic financial statements and have issued our report thereon dated September 19, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Myrtue Medical Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Myrtue Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Myrtue Medical Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies: 16-I-A.

To the Board of Trustees
Myrtue Medical Center

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Myrtue Medical Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the Medical Center's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Responses to Findings

Myrtue Medical Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Myrtue Medical Center's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Snowewold, Bell, Kyhnan + Co., P.C.

Atlantic, Iowa
September 19, 2016

MYRTUE MEDICAL CENTER
Schedule of Findings and Responses
Year ended June 30, 2016

PART I - SIGNIFICANT DEFICIENCIES

16-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Medical Center. However, this situation is common in rural hospitals.

Recommendation: We recognize that it may not be economically feasible for the Medical Center to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the members be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Medical Center to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

PART II - REQUIRED STATUTORY REPORTING

16-II-A Certified Budget: Medical Center expenditures during the year ended June 30, 2016 did not exceed amounts budgeted.

16-II-B Questionable Expenses: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expense was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Irwin Locker and Catering	Employee recognition dinner	\$ 6,810

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

16-II-C Travel Expense: No expenditures of Medical Center money for travel expenses of spouses of Medical Center officials and/or employees were noted.

16-II-D Business Transactions: During our audit, we noted no business transactions with Medical Center employees or officials.

MYRTUE MEDICAL CENTER
Schedule of Findings and Responses
Year ended June 30, 2016

PART II - REQUIRED STATUTORY REPORTING - Continued

16-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

16-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Medical Center's investment policy.

* * *